

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 L-03
H-01 PA-01 /096 W
-----026201 070106Z /63

R 061302Z APR 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 4844
TREASURY DEPT WASHDC
INFO AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 05352

USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
TREASURY PASS RYSS

E.O. 11652: XGDS-1
TAGS: EFIN, ETRD
SUBJECT: EXPORT CREDITS UK-USSR CREDIT AGREEMENT

1. ASSISTANT FINANCIAL ATTACHE RAISED THE QUESTIONS
POSED IN REF WITH MALCOLM WIDDUP, HM TREASURY UNDER
SECRETARY FOR AID AND EXPORT FINANCE, AND EXPRESSED
THE U.S. GOVERNMENT'S REGRET THAT ACROSS-THE-BOARD
EXPORT CREDIT RATES ARE BEING CONSIDERED WHICH ARE
BELOW THE MINIMA SPECIFIED IN THE CONSENSUS GUIDELINES.

2. WIDDUP CONFIRMED THAT THE U.K. WAS CURRENTLY
NEGOTIATING THE RATES OF INTEREST APPLICABLE TO EXPORT
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CREDITS THAT ARE ASSOCIATED WITH THE 1975 TRADE AGREE-
MENT WITH THE U.S.S.R. ON CREDITS OF 2-5 YEARS FOR
SMALLER CONTRACTS, INTEREST RATES WILL PROBABLY
CONFORM TO THE CONSENSUS GUIDELINES. ON OTHER CREDITS,
THE RATES WILL NOT. IF FRENCH AND ITALIAN INTEREST
RATES ARE QUOTED ON THE SAME BASIS AS THE BRITISH
RATES, (THAT IS IF ASSOCIATED FEES AND PREMIA ARE

CALCULATED UNIFORMLY), THEY SHOULD BE SOMEWHAT LOWER THAN THE PROPOSED U.K. RATES. THE U.K. IS ATTEMPTING TO SET RATES FOR DOLLAR EXPORT FINANCE OF U.K.-U.S.S.R. TRADE THAT WILL ENCOURAGE ITS USAGE. THE PERIOD OF TIME THAT THESE RATES APPLY IS STILL UNDER DISCUSSION. THE U.K. WILL, ON THIS OCCASION, SET A DATE FOR REVIEWING INTEREST RATE LEVELS ON U.S.S.R. EXPORT CREDIT THAT IS LATER THAN THE FRENCH REVIEW DATE. LESS THAN ONE-HALF OF THE 950 MILLION POUND TRADE TARGET HAS BEEN ACHIEVED.

3. WIDDUP REVIEWED THE U.K. RATIONALE FOR SEEKING THESE INTEREST RATES. ALTHOUGH REMARKING THAT THE U.S. CLEARLY UNDERSTOOD THE STATUS OF THE U.K.-U.S.S.R. TRADE AGREEMENT, HE REITERATED THAT THE INTEREST RATES BEING NEGOTIATED WERE WITHIN THE LIMITS OF THE CONSENSUS GUIDE LINES ON TWO GROUNDS: FIRST THE AGREEMENT PREDATED THE 1976 GENTLEMEN'S AGREEMENT AND SECOND THE U.K. WAS MATCHING THE FRENCH AND ITALIANS. THE U.K. HAD IN FACT CONSIDERED MATCHING THE FRENCH AND ITALIANS ON A CONTRACT-BY-CONTRACT BASIS, RATHER THAN AGREEING TO LOW ACROSS-THE-BOARD INTEREST RATES. THIS OPTION WAS JUDGED TO BE UNSATISFACTORY IN THE CONTEXT OF COMMERCIAL DEALING WITH THE U.S.S.R. IT WAS FELT, IN PARTICULAR, THAT SUCH A PROCEDURE WOULD SIMPLY LEAD TO THE U.S.S.R. PLAYING THE THREE COUNTRIES OFF AGAINST ONE ANOTHER ON A LARGE NUMBE
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OF CONTRACTS, AND ACHIEVING PERHAPS EVEN LOWER INTEREST RATES IN THE END. A QUESTION WAS PUT TO WIDDUP THAT SINCE TRANSACTIONS CAN TAKE PLACE OUTSIDE OF THE TRADE

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AGREEMENTS AND SINCE THE THREE COUNTRIES'NEGOTIATED RATE DO DIFFER THAT INTEREST RATE COMPETITION WAS NOT IN FACT PRECLUDED BY AN ACROSS-THE-BOARD ARRANGEMENT. WIDDUP DID NOT THINK THIS WAS LIKELY.

4. RESPONDING TO THE U.S. GOVERNMENT REQUEST, WIDDUP INDICATED THAT THE APPROPRIATE U.S. STEP WOULD BE TO PRESS THE FRENCH TO RAISE THEIR RATES AT THEIR INTEREST RATE REVIEW THIS YEAR. HE STATED THAT THE U.K. WAS AN ENTHUSIASTIC SUPPORTER OF THE EXPORT CREDIT CONSENSUS, HAD WORKED HARD TO KEEP THESE AGREEMENTS WITH THE U.S.S.R. WITHIN ITS GUIDELINES, AND WOULD CONTINUE TO SUPPORT THE CONSENSUS IN THE FUTURE.

5. COMMENT: DETAILS ON EXPORT CREDIT MATTERS, PARTICULARLY THOSE TOUCHING EASTERN EUROPE, HAVE BEEN DIFFICULT TO OBTAIN SINCE AN EMBASSY CONTACT SUFFERED EXTREME EM-CONFIDENTIAL

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BARRASSMENT AS A RESULT OF REMARKS HE MADE TO A GAO TEAM INVESTIGATING EASTERN EUROPEAN DEBT PROBLEMS IN MARCH. WIDDUP REPEATEDLY REQUESTED THAT THE SCANTY DETAILS HE PROVIDED ON THE CREDIT TERMS BEING NEGOTIATED BE TREATED IN STRICT CONFIDENCE. EMBASSY WOULD APPRECIATE RECIPIENTS HONORING THIS REQUEST.

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